

**REPORT OF THE AUDIT OF THE
HART COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HART COUNTY SHERIFF

For The Year Ended
December 31, 2004

The Auditor of Public Accounts has completed the Hart County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$29,373 from the prior year, resulting in excess fees of \$299,766 as of December 31, 2004. Revenues increased by \$29,358 from the prior year and expenditures decreased by \$15.

Report Comments:

- The County Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Martin, Hart County Judge/Executive
Honorable Jeff Staples, Hart County Sheriff
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Hart County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Terry Martin, Hart County Judge/Executive
Honorable Jeff Staples, Hart County Sheriff
Members of the Hart County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Hart County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 19, 2005

HART COUNTY
JEFF STAPLES, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Federal Grants		\$	15,322
State - Kentucky Law Enforcement Foundation Program Fund			23,651
State Fees For Services:			
Finance and Administration Cabinet	\$	18,167	
Sheriff Security Service (HB 452)		<u>19,126</u>	37,293
Circuit Court Clerk:			
Fines and Fees Collected			7,353
County Clerk - Delinquent Taxes			1,750
Commission On Taxes Collected			162,372
Fees Collected For Services:			
Auto Inspections		2,415	
Accident and Police Reports		309	
Serving Papers		13,670	
Carrying Concealed Deadly Weapon Permits		4,965	
Prisoner Transport		<u>6,252</u>	27,611
Other:			
10% Add On Fee		22,143	
Advertising Costs		1,080	
Miscellaneous		<u>645</u>	23,868
Interest Earned			<u>546</u>
Total Revenues - Excess Fees Due County for 2004			299,766
Payments to Fiscal Court:			
Monthly		274,563	
May 9, 2005		<u>25,203</u>	<u>299,766</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$</u></u> 0

The accompanying notes are an integral part of this financial statement.

HART COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HART COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months of the year and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. The applicable requirements were met as of December 31, 2004; the Sheriff's deposits were fully insured by FDIC insurance.

Note 4. Kentucky Law Enforcement Foundation Program Fund

The Hart County Sheriff's Office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in Kentucky Revised Statute 15.460. During calendar year 2004, the Hart County Sheriff's Office received \$23,651. All funds received were expended for the intended purpose.

Note 5. Drug Fund

The Hart County Sheriff's office established a Drug Fund with funds received as the result of a drug investigation. These funds are to be used for drug enforcement and drug education. The Drug Fund balance at January 1, 2004 was \$1,114. Drug Fund receipts and disbursements during calendar year 2004 totaled \$4,228 and \$4,926 respectively. The Drug Fund had a balance of \$416 as of December 31, 2004.

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COMMENTS AND RECOMMENDATIONS

HART COUNTY
JEFF STAPLES, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The County Sheriff Should Deposit Funds Intact On A Daily Basis

Technical Audit Bulletin 93-002 states, "a county official is in violation of KRS 64.850, Commingling of Public Funds, if more than \$200 of public funds are accumulated and/or retained and not deposited into an official bank account intact on a daily basis." Although receipts appear to have been deposited intact, there were only 27 deposits made to the official bank account during calendar year 2004. The number of deposits ranged from one to four per month, with an average deposit amount of \$12,244. We recommend that funds be deposited on a daily basis.

Sheriff's Response: A procedure has been implemented for this non-compliance in that a daily receipts ledger is now in place and frequent deposits are made.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's Office has a lack of segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He should document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff should document this by initialing the invoices.
- The Sheriff should periodically compare bank reconciliations to the bank balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the bank balance in the checkbook.

Sheriff's Response: None

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Martin, Hart County Judge/Executive
Honorable Jeff Staples, Hart County Sheriff
Members of the Hart County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Hart County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated May 19, 2005. The County Sheriff's financial statement is prepared in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations section.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hart County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under Government Auditing Standards.

- The County Sheriff Should Deposit Funds Intact On A Daily Basis

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 19, 2005

